

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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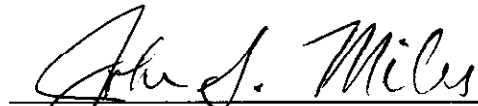
POSTAL RATE AND FEE CHANGES, 2000 )

POSTAL RATE COMMISSION  
OFFICE OF THE CLERK  
Docket No. R2000-1

ASSOCIATION OF PRIORITY MAIL USERS, INC.  
FIRST INTERROGATORIES AND REQUESTS FOR  
PRODUCTION OF DOCUMENTS TO UNITED PARCEL SERVICE  
WITNESS DAVID M. SAPPINGTON (APMU/UPS-T6-1-22)  
(June 19, 2000)

Pursuant to sections 25 through 27 of the Rules of Practice of the Postal Rate Commission, Association of Priority Mail Users, Inc. hereby submits the following interrogatories and requests for production of documents.

Respectfully submitted,

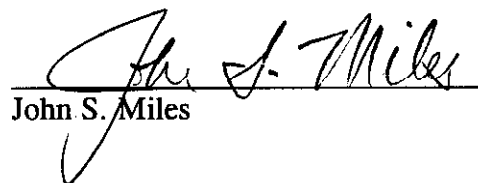


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CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



John S. Miles

June 19, 2000

**APMU/UPS-T6-1.**

At page 5, line 7, you state that “[r]ates that disadvantage competitors unfairly should be avoided.”

- a. Please define the term “unfairly” as you use it here.
- b. Please assume that the Commission has full information concerning rates charged by competitors and explain how the Commission should determine whether Postal Service rates (i) disadvantage competitors, and (ii) disadvantage competitors **unfairly**; *i.e.*, please explain how the Commission should determine when Postal Service rates present competitors with an unfair disadvantage. In your explanation, please define the role, if any, which you assign to factors other than incremental cost in determining whether Postal Service rates are unfair and cite all studies, reports or references to the literature on which you rely to support your response.
- c. Please assume that the only information which the Commission has concerning rates charged by competitors is their published rates for single pieces, but the Commission has ample reason to believe that the majority of business lodged with competitors is at rates discounted from their published rates, including reduced effective rates after rebates. However, the Commission has no further information about the extent or depth of discounting because such information is treated as proprietary and confidential by shippers and their customers alike, pursuant to shipper-enforced contracts. Under these circumstances, please

explain how the Commission should determine whether Postal Service rates disadvantage competitors unfairly.

- d. Do you believe that the assumption in the hypothetical question in part (c) is accurate? That is, is the majority of business lodged with competitors at or below published rates?

**APMU/UPS-T6-2.**

Your testimony at page 5, lines 13-15, states that “[w]hen mailers can obtain comparable services at reasonable cost from suppliers other than the Postal Service, high postal rates impose fewer hardships on those mailers.”

- a. Please define the term “reasonable cost” as you use it here.
- b. Please define the term “mailers” as you use it here, and explain whether the reference is to individual mailers, such as the general public who mail single packages, or to mailers who ship regularly and with volumes sufficiently large to qualify for discounted, negotiated rates.
- c. Assuming that the term “reasonable cost from suppliers” means the rates which suppliers charge mailers, please explain whether your reference is to published single piece rates, or to discounted volume rates.

- d. In terms of the rates charged by the Postal Service prior to any general change in rates (*i.e.*, the currently prevailing rates), please explain:
- (i) whether “reasonable cost” from other suppliers means that the rates available from other suppliers should be lower than, equal to, or higher than those available from the Postal Service;
  - (ii) what information the Commission should use to determine whether comparable services are available at reasonable cost from other suppliers; and
  - (iii) what information other suppliers should provide to the Commission to show that they provide mailers with comparable services at reasonable cost.
- e. What information should the Commission use when attempting to determine whether mailers can obtain comparable service at reasonable cost from suppliers other than the Postal Service? Please explain specifically whether and why the Commission should focus on published rates, or attempt to obtain information on unpublished, negotiated rates offered to all major shippers.

**APMU/UPS-T6-3.**

At page 10 of your testimony, you state:

Thus, more substantial increases in Postal Service rates are appropriate when mailers have ready alternatives to the Postal Service, *ceteris paribus*.... If the Postal Service cannot successfully market a service with rates that cover costs and a reasonable share of institutional costs (as determined by the criteria listed in §3622 (b)), then society may be

better served when competitors, not the Postal Service, are the primary providers of the service in question.

- a. When the availability of ready alternatives gives Priority Mail a high own-price elasticity of demand, is it your opinion that the Commission should set rates sufficiently high so as to deliberately reduce the total contribution which Priority Mail makes to institutional cost? Please explain your position fully.
- b. Suppose the Commission deliberately increases rates to the point where the total contribution to institutional costs from Priority Mail is knowingly and deliberately reduced below what it would otherwise be. What would be the impact of such a rate increase on the monopoly classes of mail?
- c. Is it your recommendation that the Commission should help price Parcel Post or Priority Mail out of its established the market? Please explain fully.

**APMU/UPS-T6-4.**

At page 17 of your testimony, you state that “[h]istorically, the Commission has employed such approximations of incremental cost when formulating its rate recommendations because incremental cost measures were not available.... To provide stronger safeguards against cross subsidies, reasonable estimates of incremental cost should be employed when they are available.”

- a. Is it your contention that estimates of incremental costs for Priority Mail were not available in Docket No. R97-1?

- b. Is it your contention that the estimates of incremental costs for Priority Mail that were available in Docket No. R97-1 were not reasonable?
- c. Unless your answers to preceding parts a and b are unqualified negatives, please explain fully the shortcomings of the Postal Service's estimate of incremental costs for Priority Mail in Docket No. R97-1. Please provide citations to any testimony in Docket No. R97-1 that supports your position.
- d. Is it your contention that no reasonable estimate of incremental cost for Priority Mail is available in this docket? Please explain fully any affirmative answer.

**APMU/UPS-T6-5.**

At page 18 of your testimony, you state that "I recommend a 40.3 percent increase in the average rate for Priority Mail. This rate increase represents a cost coverage of 176% and a markup (the ratio of contribution to attributed cost) of 76%...."

- a. Please provide the numerator and denominator (*i.e.*, the total revenue and the attributed cost) which you used to determine that your proposed rate increase results in a cost coverage of 176 percent.
- b. Please provide the numerator and denominator (*i.e.*, the contribution and the attributed cost) which you used to determine that your proposed rate increase results in a markup of 76 percent.
- c. Please provide a full explanation showing derivation of the numerator and denominator in each case.

**APMU/UPS-T6-6.**

Your testimony at page 19 reviews the Commission's decision concerning coverage in Docket No. R97-1, and cites the Commission as noting that "Priority Mail's attributable costs increased dramatically between the R94-1 and the R97-1 rate cases. Therefore, applying historic coverages to Priority Mail's higher base of attributable costs would have caused Priority Mail's rates to rise more rapidly than they had historically." [footnote citing the *Op. & Rec. Dec.* omitted.] In your opinion, was this part of the Commission's rationale in Docket No. R97-1 either wrong or misguided? Explain fully any affirmative answer.

**APMU/UPS-T6-7.**

At page 19 of your testimony, you cite the Commission's decision concerning coverage in Docket No. R97-1 as noting that "the Commission expressed the concern that a large rate increase for Priority Mail might jeopardize its ability to compete in the marketplace." (Footnote citing the *Op. & Rec. Dec.* omitted.) In your opinion, was this part of the Commission's rationale in Docket No. R97-1 either wrong or misguided? Please explain fully any affirmative answer.

**APMU/UPS-T6-8.**

At page 20 of your testimony, you state that "[t]he evidence in its entirety also suggests that Priority Mail provides a high level of service quality relative to First Class Mail."

- a. Please define precisely the time period to which this statement refers.
- b. Please explain fully what you mean by "the evidence in its entirety."

- c. If any of the evidence which you cite is in any way conflicting, please explain fully how much weight you give to each datum.
- d. Is it your contention that the service quality of Priority Mail has been equal to or better than First-Class Mail? Unless your answer is an unqualified negative, please provide all data, studies, reports, or other evidence on which you rely to support such contention.
- e. If the service quality of Priority Mail is inferior to that of First-Class Mail despite its greater cost, please explain why the markups should be equal.

**APMU/UPS-T6-9.**

Please refer to your testimony at page 20, lines 5-7, and your Table 6 on page 36.

- a. Please confirm that in Table 6 the average annual change in attributed costs per piece in the row indicated "R97-1" was 8.1 percent. Please explain fully if you do not confirm.
- b. Please confirm that the average annual percentage change in attributed cost per piece in the row indicated "R97-1" was higher than during any of the preceding periods shown in Table 6. Please explain fully if you do not confirm.
- c. Confirm that in Table 6 the average annual change in attributed costs per piece in the row R2000-1 was 11.5 percent. Please explain fully if you do not confirm.



- d. Please confirm that the percentage change in Docket No. R2000-1 is higher than any of preceding periods shown in Table 6, including Docket No. R97-1.

Please explain fully if you do not confirm.

- e. Is it your opinion that another unusually large increase in Priority Mail's attributable cost per piece is present in this case? Please explain fully any negative answer.

**APMU/UPS-T6-10.**

At page 38 of your testimony, you recommend a 40.3 percent average rate increase for Priority Mail .

- a. Did any UPS witness, or anyone working under your supervision at any time, either during or after the preparation of this testimony, project what the effect of your proposed rate increase would be on the volume of Priority Mail during Test Year?
- b. If your answer to part (a) is negative, please explain fully why you did not consider such a projection to be necessary.
- c. If you (or anyone else) developed one or more volume forecasts while preparing your testimony, please provide the results of each such forecast and explain fully how it was derived.
- d. Did any UPS witness, or anyone working under your supervision at any time, either during or after the preparation of this testimony, project what the effect of

your proposed rate increase would be on the revenues of Priority Mail during Test Year?

- e. If your answer to part (a) is negative, please explain fully why you did not consider such a projection to be necessary.
- f. If you (or anyone else) developed one or more revenue forecasts while preparing your testimony, please provide the results of each such forecast and explain fully how it was derived.
- g. Did any UPS witness, or anyone working under your supervision at any time, either during or after the preparation of this testimony, project what the effect of your proposed rate increase would be on the contribution to institutional cost of Priority Mail during Test Year?
- h. If your answer to part (a) is negative, please explain fully why you did not consider such a projection to be necessary.
- i. If you (or anyone else) developed one or more contribution to institutional cost forecasts while preparing your testimony, please provide the results of each and explain fully how it was derived.

**APMU/UPS-T6-11.**

Do you contend that your recommended 40.3 percent increase in rates for Priority Mail will increase the total contribution to institutional cost from Priority Mail above the amount projected by the Postal Service? If so, please indicate the amount and explain fully how the result was derived.

**APMU/UPS-T6-12.**

At page 25 of your testimony, you state that “Priority Mail’s competitive position will be further strengthened if the Postal Service’s proposal to introduce a new, lower one-pound rate for Priority Mail is approved. This new rate will enhance the ability of Priority Mail to deliver relatively low rates to a large portion of its customers, and thereby sustain solid volume growth and a dominant market share.”

- a. Are you recommending that the proposal to introduce a new one-pound rate be approved?
- b. Confirm that the proposed one-pound rate is not lower than the existing rate for a package weighing up to two pounds, and in fact is over 7 percent more than the existing rate for a 2-pound piece. Please explain any non-confirmation.
- c. Please define the term “relatively low rates” as you use it here, and explain whether you consider the proposed \$3.45 rate to be relatively low in relation to (i) the FedEx rate for government agencies, or (ii) UPS negotiated rates for one-pound packages receiving second-day delivery.

**APMU/UPS-T6-13.**

Please refer to Tables 4 and 5 at pages 26 and 28, respectively, of your testimony.

- a. Would you agree that the number of 3-digit ZIP Code pairs with a One-Day Service Standard is approximately equal, and differs by less than 1 percent?

- b. Please confirm that despite all the asserted priority given to Priority Mail in handling and dispatch, according to the data in your Table 4 it did not achieve its overnight standard as often as First-Class Mail.
- c. What is the volume, or share, of First-Class Mail that has an overnight delivery standard?
- d. What is the volume, or share, of Priority Mail that has an overnight delivery standard?

**APMU/UPS-T6-14.**

Please refer to footnote 31 at page 29 of your testimony which states that “[h]igher ‘failure rates’ can be indicative of higher service quality in other important settings also. Some highly regarded hospitals experience higher mortality rates than do less highly regarded hospitals.”

- a. Is it your contention that of the various expedited 2-day delivery services offered in the market, Priority Mail is the most highly regarded? Please provide all studies, reports, or other information on which you rely to support an affirmative answer.
- b. Is it your contention that Priority Mail attracts the most difficult-to-deliver pieces because it is so highly regarded? Please provide all studies, reports, or other information on which you rely to support an affirmative answer.

**APMU/UPS-T6-15.**

At page 31 of your testimony, you state that “ODIS often reports Priority Mail to have achieved its service standards less frequently than does the PETE system. [footnote omitted] This is counter-intuitive.”

- a. What is your understanding of the extent to which the PETE system replicates covers, or is representative of the entire flow of Prior Mail?
- b. What is your understanding of the extent to which the ODIS system replicates covers, or is representative of the entire flow of Prior Mail?
- c. Is it your assertion that PETE and ODIS are identical, or nearly identical, sampling systems? Please explain your understanding of the two.
- d. Why do you say the results are “counter-intuitive?”

**APMU/UPS-T6-16.**

At page 31 of your testimony, you state that “[d]irect measures of service quality and value other than achievement of service standards include measures of the reliability....”

- a. Please define the term “reliability” as you use it here.
- b. Please explain what measure, or measures, you would use to ascertain the reliability of an expedited delivery service such as Priority Mail.
- c. Please provide all studies, reports, or other information which you rely to show that Priority Mail is a reliable service, and fares well on this direct measure of service quality.

**APMU/UPS-T6-17.**

At page 35, lines 5-6, of your testimony, you state that “[t]his consideration [ECSI value] is less applicable to Priority Mail in light of its greater “non-letter” content.

- a. Please define the term “non-letter content” as you use it here, and state whether you include or exclude documents from non-letter content.
- b. Please provide all studies, reports, documents and information on which you rely for your assertion that Priority Mail has greater “non-letter” content.

**APMU/UPS-T6-18.**

At page 38, line 4, of your testimony, you state that the “recommended rate increase ... mainly reflects the 35% increase in Priority Mail’s attributable costs since R97-1.”

- a. Please confirm that the numerator and denominator used to derive the 35.9 percent increase in the above-quoted statement were, respectively, the difference between total attributed cost in Docket Nos. R2000-1 and R97-1 (*i.e.*, \$3,288,209,000-\$2,419,687,000) and total attributable cost in R97-1 (*i.e.*, \$2,419,687,000). If you do not confirm, please explain how the 35.9 percent increase was derived.
- b. What is the economic rationale for having percentage changes in rates track percentage changes in total cost? Please provide references to the economic literature that support and justify your rationale for this comparison.

- c. Please explain why rate increases should track changes in total cost rather than changes in unit cost and provide references to the economic literature that support and justify your rationale.

**APMU/UPS-T6-19.**

At page 28, line 7, of your testimony, you refer to a 135 percent increase in Priority Mail's attributable costs since Docket No. R94-1.

- a. Please indicate the numerator and denominator used to compute the 135 percent referred to in your testimony.
- b. What is the economic rationale for comparing the cumulative percentage change in total attributable cost with the percentage change in rates, rather than with change in unit attributable cost?
- c. Please provide references to the economic literature which support and justify the appropriateness of your comparison.

**APMU/UPS-T6-20.**

At page 35, your testimony states that "the Commission's recommendation was based in part on the substantial increase in Priority Mail's attributable costs that occurred between R94-1 and R97-1." Are you stating that the Commission's recommendation was based on (i) the increase in total attributable costs or (ii) the increase in *unit* attributable cost? Please provide a citation to the Commission's *Opinion and Recommended Decision* in Docket No. R97-1 that supports and clarifies your answer.

**APMU/UPS-T6-21.**

At page 35 you state that “[t]he corresponding increase in Priority Mail’s attributable costs since R97-1, while substantial, is less pronounced.” Is it your opinion that an average annual increase of 11.5 percent in unit attributable cost between Docket Nos. R97-1 and R2000-1 is less pronounced than an average annual increase of 8.1 percent in unit attributable cost between Docket Nos. R94-1 and R97-1? Please explain fully any negative response.

**APMU/UPS-T6-22.**

In your opinion, when a subclass has suffered a sharp increase in unit attributable cost, and the Commission is setting rates for that subclass, should the Commission attempt to mitigate or compound the effect of the increase in unit cost? Please explain fully, and provide all references, reports, studies, and other documents on which you rely to support your position.